

August 4, 2005

CALIFORNIA ENERGY COMMISSION
Attention: Dockets 04-IEP-01F
1516 Ninth Street
Sacramento, California 95814-5512

DOCKET 04-IEP-1F
DATE AUG 04 2005
RECD AUG 04 2005

In the Matter of:

**Comments on Strategic Planning and
Transmission Staff Report**

) **Docket 04-IEP-01F**
)
) **NOTICE OF COMMITTEE**
) **HEARING**

The California Department of Water Resources State Water Project (SWP) submits the following comments regarding the California Energy Commission's (CEC) Planning for Upgrading California's Electric transmission system in support of the 2005 Integrated Energy Policy Report Proceeding (Report).

The Report states that for a variety of reasons, transmission expansion can have many beneficial consequences. SWP generally concurs with this statement. However, consideration must also be given to costs of construction of transmission and the allocation of such costs. Further, the CEC, as well as others, must encourage full consideration of all economic aspects and alternatives, including costs of generation in making decisions on investments to the transmission grid.

Chapter 6 of the Report discusses the role of CEC, California Independent System Operator (CAISO), Load Serving Entities (LSEs) and other entities or market participants in development of transmission planning. SWP generally agrees with the proposal in the report and agrees with CAISO's new planning process that allows CAISO to evolve from a predominantly reactive role to a proactive planning role. Because CAISO has confidential economic data that is needed for transmission analysis purposes that the PTOs and CEC do not have, and CAISO has the requisite modeling tools, CAISO is best suited to use the data and tools to provide a more comprehensive basis for determining the economic impacts of congestion and RMR-type costs and to make decisions about new facilities that would provide economic and/or reliability benefits. Since the LSEs and various market participants have the load growth and related information that is necessary to project transmission needs in the future, SWP believes CEC would compliment CAISO's effort by coordinating the collection of this data from the various parties and conducting any related load growth studies.

The SWP recommends that transmission pricing policies be developed that encourage cost-efficient development of transmission and generation alternatives to

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send proper price signals through application of principles of cost causation. This will serve as locational signals to generators for developing resource opportunities in locations that would resolve transmission bottlenecks.

As the Report mentions, the cost of congestion and reliability costs have skyrocketed in the last couple of years. Thus, it is important to adopt a proactive stance to manage the transmission grid to minimize these costs to the market participants. Identification and implementation of projects early that will eliminate or lessen the impact of these costs will greatly help the market participants manage their costs. The list in Appendix F is a good starting point in this process. SWP also recommends that California consider and adopt other mitigation measures such as demand response to solve short-term transmission problems until necessary transmission is constructed. Demand response should also be considered as an alternative to solve long-term transmission problems in locations where demand response is more economical than transmission expansion.

Lastly, SWP wholly agrees with CEC on the need for the integration of transmission in developing renewable resources. As discussed above, SWP supports the principles of cost causation in cost allocation for these resources too. Under such principles, the costs of transmission that is solely used by a generator(s) should be properly allocated to the generator(s). Federal Energy Regulatory Commission's (FERC) Large Generator Interconnection Policy (Order 2003) addresses this issue and provides guidance under which the customers of the generator(s), both wholesale and retail pay the costs of generator interconnection through the cost of the power purchased from the generator(s).

Thank you again for the effort CEC has put into developing the Report and to provide comments. Should you have any questions please call me at (916) 574-0670.

Sincerely,

Charles Kearney, Chief
Transmission Facilities Section
California Department of Water Resources
State Water Project